CHAPTER II

GENERAL PROCEDURES

INTRODUCTION

The TPS review is designed as a cost effective means to evaluate the SESA's UI tax operations. This chapter describes the general procedures to be followed in conducting the TPS review, and each subsequent chapter contains the specific data collection instruments to be used for the review of each tax function. The following major tax functions will be reviewed:

Tax Functions Examined

- **Status Determination**

- **Cashiering**

- **Report Delinquency**

- **Collections**

- **Field Audit**

- **Account Maintenance**

Three different methodologies are provided for evaluating the SESA tax operation. They can be used individually or in concert with each other in order to comprehensively assess the strengths and weaknesses of each tax function. The methodologies are:

Methodologies

1 • **Computed Measures**

2 • **Program Reviews**
     Systems Reviews
     Acceptance or Estimation Sample

3 • **Methods Surveys**

Figure II-1

TPS ASSESSMENT METHODS OVERVIEW

	Computed Measures	Program Reviews		Methods Surveys
		Systems Reviews	Samples (60)	
STATUS DETERMINATION	! % New determinations within 90 days ! % New determinations within 180 days ! % Successor determinations within 90 days ! % Successor determinations within 180 days	! Accuracy of new determinations ! Accuracy of successor determinations ! Accuracy of inactiv./terminations	! New determinations ! Successor determinations ! Inactiv./terminations	! Methods to facilitate employer identification ! Methods to promote employer registration
CASHIERING	NA	! Accuracy of employer remittance processing ! Accuracy of posting	! Employer remittances (Estimaion Sample 500)	NA
REPORT DELINQUENCY	! % Timely reports ! % Reports secured within 90 days ! % Reports secured or resolved within 180 days	! Accurate identification of delinquent employers ! Take all reasonable actions to secure/resolve report delinquencies	! Accounts with delinquent reports	! Methods to resolve delinquencies ! Methods to promote voluntary reporting and payment compliance
COLLECTIONS	! % Timely payments ! % Turnover ratio ! % Uncollectible ! % Accounts receivable	! Take all reasonable actions to manage accounts receivable	! Accounts receivable	! Methods to manage and control accounts receivable ! Methods to promote voluntary payment compliance
FIELD AUDIT	! % Change in total wages ! % Contributory employers audited ! % Total wages audited (annualized)	! Ensure that audits meet ESM requirements	! Completed audits	! Methods to select employers for audit ! Automated Audit Programs
ACCOUNT MAINTENANCE	NA	! Accuracy of contrib.rpt processing ! Accuracy of billings ! Accuracy of credits/refunds ! Accuracy of benefit charging	! Active contributory accounts ! Contrib./reimb. accounts receivable ! Accounts payable credits/refunds ! Accounts due benefit charges	NA

GENERAL PROCEDURES   **INTRODUCTION**

Computed Measures

Specific indicators have been developed for the Status Determination, Report Delinquency, Collections, and Field Audit functions. Data elements for these indicators will be gathered from the current system used by SESAs to electronically report quarterly data to the U.S. Department of Labor. These measures will be automatically transformed into indicators of timeliness and completeness by the TPS ADP system and provided to the TPS reviewer to aid in the final evaluation of State tax operations.

Computed Measures

- Status Determination

    . % New determinations made within 90 days
    . % New Determinations made within 180 days
    . % Successor Determinations made within 90 days
    . % Successor Determinations made within 180 days

- Report Delinquency (contrib. & reimb.)

    . % Timely Reports
    . % Reports Secured within 90 days
    . % Reports resolved within 180 days

- Collections (contrib. & reimb.)

    . % Timely Payments
    . Turnover of accounts receivable
    . % Receivables declared uncollectible
    . % Accounts Receivable

- Field Audit

    . % Total wage change
    . % Contributory employers audited
    . % Total wages audited (annualized)

The timeliness and completeness findings from these indicators should be presented along with the findings about accuracy from program reviews when evaluating the quality of a particular tax function in the Annual Report.

Program Reviews
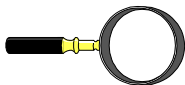
The Program Review methodology is designed to alert the TPS reviewer to the tax functions that are producing inaccurate, untimely, or incomplete outputs. This is done as a two-fold process: Systems Review and Acceptance Sampling.

Systems Review   To ensure accurate and timely tax operations, each SESA has built in various internal controls and quality assurance systems such as edits and checks, reviews of completed work and audit trails. However, such systems are not absolute. The systems themselves could be flawed, or stated policy may not always be followed. Therefore, the TPS review begins with an extensive examination of the SESA's controls, verifying their existence and use, documenting areas of potential "risk" where controls are weak or non-existent.

Acceptance   To confirm that SESA controls are producing the desired outputs
Sampling   (such as accurately determining the status of potential employers, properly resolving delinquent reports, and following SESA procedures when collecting accounts receivable), small "acceptance" or "discovery" samples are examined for each tax function. Due to the small number of samples, this test is intended simply to signal potential problem areas in those tax functions where 3 or more cases are found to fail. It indicates - with a 90% confidence level - that the particular tax function has an error rate of 8.8% or more. For more details or to determine a specific level of error, the reviewer may draw a larger sample (see Appendix A).

GENERAL PROCEDURES   **INTRODUCTION**

Methods Surveys

Surveys will be conducted in Status Determination, Report Delinquency, Collections and Field Audit to gather data on best practices for facilitating employer registration, most effective methods for collecting delinquent reports and accounts receivable and so on. Information on such methods will be compiled and shared with other States to provide technical assistance. When working on the TPS Annual Report, the reviewer will be able to examine the survey compilation to identify other SESA systems which may have applications for improving the reviewer's tax system. *Regional staff will arrange for the exchange of more detailed information between SESAs.*

Review Steps

To conduct the TPS Review, the reviewer will need to complete four major steps: Plan for the Reviews, Conduct Systems Reviews, Acceptance Sampling, and Conclude Reviews (see Figure II-2). The following sections of this chapter provide directions for the review steps. Chapters three through eight provide TPS data collection instruments for the review of each major tax function.

Figure II-2

# OVERVIEW OF REVIEW STEPS

I.   PLANNING FOR REVIEWS

        a.   Review All TPS Materials
        b.   Ensure that Records are Retained
        c.   Schedule and Conduct Introductory Meetings
        d.   Lay Groundwork for Reviews and Computed Measures
        e.   Develop Workplans for Reviews

II.   CONDUCTING SYSTEMS REVIEWS AND SURVEYS

        a.   Begin Reviews
        b.   Gather Information
        c.   Verify the Source of Information
        d.   Complete the Systems Review Forms
        e.   Complete the Program Review Chart (preliminary)

III. ACCEPTANCE SAMPLING
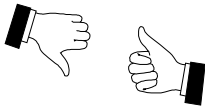
        a.   Select Samples
        b.   Replace Missing Cases (if needed)
        c.   Review Samples
        d.   Post Coding Sheets
        e.   Prepare Preliminary Findings
        f.   Select and Examine Expanded Samples (if needed)
        g.   Sampling by Exception

IV.   CONCLUDING REVIEWS,

        a.   Assess Computed Measures' Findings
        b.   Complete Program Review Chart
        c.   Prepare Draft Report
        d.   Conduct Exit Interview
        e.   Prepare Annual Report

I. PLANNING FOR REVIEWS

a. Review All TPS Materials

To complete the Program Review, the reviewer must be thoroughly familiar with the TPS review procedures. Knowing the required review steps of Computed Measures, Systems Review, Acceptance Sampling, and Surveys will allow the reviewer to conduct all necessary activities without undue delays. Understanding the review questions is also essential to building reviewer credibility. If the reviewer is not knowledgeable, respondents may think their time is being wasted and be less cooperative.

The reviewer should thoroughly examine the materials in this handbook and other TPS background materials before contacting the SESA UI tax staff regarding the review. *If there are any questions, please call the Regional TPS staff for clarification.*

b. Ensure that Records are Retained

Upon familiarization with the TPS design, the reviewer must ensure that the SESA is retaining the necessary records from the specific tax functions to such a degree as to allow all Acceptance Sample questions to be answered (e.g., paper copies, imaging, microfiche, back up discs, etc).

For example, in the Status Determination Chapter an Acceptance Sample question asks "Does evidence exist at the time of the review that the account had been correctly set up in accordance with State law and written policy?". In this instance to properly answer the question the SESA must have retained sufficient documentation for the reviewer to make that determination. Another Acceptance Sample question asks "Has the employer provided all the information that is material to the Inactivated/Terminated Determination?". For the reviewer to properly answer this question, documentation authorizing the termination must exist. Such documentation may be found in the form of a letter for the termination from the employer, or a report from the SESA field staff stating the business is closed, or on a computer listing of accounts terminated after the required quarters have lapsed with no reported wages.

It is the responsibility of the TPS reviewer to become knowledgeable about the information requested in the Acceptance Samples and ensure if the SESA is not currently retaining the information that arrangements are made to do so. In each chapter's Acceptance Sample instructions, information is provided that will also assist the reviewer in clarifying what work product must be retained by the SESA.

At a minimum, documentation must be recorded and maintained until the TPS Annual Report has been reviewed and approved by the Regional Office. The records can be retained in their original hard copy form, on microfiche or any other means that provides sufficient detail; or the SESA must maintain an audit trail which permits the reviewer to follow the flow of the work in complete enough detail so as to allow the Acceptance Sample to be answered in full.

c. Schedule and Conduct Introductory Meetings

The next step of the TPS review is to meet with the UI Director and the Tax Chief to ensure management support for scheduling and conducting the review. In addition, the SESA administrator who will deal with the reviewer in terms of TPS findings and recommendations must be identified.

A meeting should be scheduled with all appropriate personnel including unit supervisors and ADP staff to discuss the review, to request necessary materials, procedures, charts, etc. and to ensure that data processing staff are informed of their involvement in the creation of sampling universes and the processing of computed measures.

At both administrative and tax staff meetings the TPS reviewer must explain the purpose and content of the TPS review. It should be explained that the primary purpose of the review is to produce information for the State to use to improve the quality of their revenue operation; and that the secondary purpose is to make a formal judgment about whether reasonable assurance of quality exists in each of the functional areas.

| **GENERAL PROCEDURES** | **PLANNING FOR REVIEWS** |

Other items to explain include:

- the tax function subjected to review

- the role of Computed Measures

- the role of System Reviews, Acceptance Samples and Expanded Samples

- the role of the Methods Surveys

- the steps of the review

- the highly detailed nature of the review including the need to identify information sources to verify findings

Other activities to be covered at the initial meeting with unit supervisors are:

- Providing copies of all review documents to the units involved in the review. This includes the individual tax functions (i.e., the Status unit, Cashiering, Delinquency unit, Field operations, and Accounting), as well as the Data Processing section.

- Drafting a Flow Chart of the Tax Operation to serve as a road map to the TPS Program Review. It should show units responsible for each function and subfunction which will be reviewed and should identify the individuals to contact about each. This will also guide the reviewer in scheduling interviews, and clarify the operational flow of the tax functions.

- Arranging to obtain materials describing the State's revenue procedures and rules. These materials should include UI Tax laws and regulations, manuals, and other written descriptions of organization and procedures.

d.   Lay the Groundwork for Reviews and Computed Measures

The first objective of the reviewer is to learn enough about the applicable laws, rules and regulations of the SESA tax operation to effectively plan and administer the TPS review. The reviewer will complete the following tasks as part of the preparation:
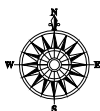
- Examine the data elements for Computed Measures. The reviewer must ensure that they are being gathered and that Federal definitions are being interpreted and reported as intended.

- Complete or update the Organizational Chart. The TPS review will examine six tax functions in every State, but each State's tax agency is organized differently. Some agencies may call these functions by different names or have parts of a single function managed by many different units. By understanding who does what, the reviewers will become familiar with the specific structure of the SESA's Revenue organization prior to conducting the review.

   Listing the staff to contact for information on each TPS subfunction will provide the reviewer with an understanding of the structure of revenue operations.

- Assemble and review the materials including SESA's organization chart, laws, regulations, manuals and procedures. Many questions in the Program Review materials ask the reviewer to determine whether State procedures ensure that staff are correctly applying State UI tax laws and regulations. Questions on Recorded Information & Instructions ask whether such documentation reflect accurately and completely the <u>current</u> laws and regulations.

To prepare to answer these questions the reviewer should examine State UI tax laws, regulations and other written policies. These materials may be lengthy. If the reviewer is very familiar with the TPS review instruments it should be possible to identify those sections of State law and regulations which are most relevant. The reviewer might develop a reference sheet prior to conducting the review which could note key features of the State law, citations, and dates of enactment.

- If an audit of the SESA has been recently performed by groups or firms outside the SESA tax area, the reviewer should examine the findings and the SESA's response to those findings. Information from the findings can aid the reviewer in developing a comprehensive understanding of the SESA's tax operation. Since audits are financial in nature, their focus is likely to be different from that of the TPS review. Therefore, the existence of a recent audit will not replace an TPS review.

During the preparation for this review, the reviewer should determine if there might be any questions in the Acceptance Sample Questionnaire which have no material effect on the current or future payment of UI tax.

If such questions are identified in the Acceptance Samples, the SESA will need to coordinate with the Regional representatives to obtain necessary approval to enter a code of "Not Applicable" one time for the entire column deemed not material (e.g., industry codes are not applicable in some States in assigning new tax rates and so their accurate posting is not material). Regions will produce a brief memorandum attesting that due to SESA regulations, a particular question is Not Applicable. This memo will be attached as part of the SESA's Annual Report.

e. Develop Workplan for Reviews and Schedule Interview
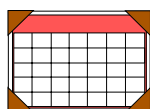
A central part of the preparation and workplan development will be to schedule all interviews, Acceptance Sample reviews, and meetings with agency staff. The reviewer should develop a workplan which lists dates of review activities. The workplan should include starting dates as well as target completion dates for review of Computed Measures findings, compilation of Survey data, Systems Reviews, Acceptance Sampling and completion of the Annual Report.

During the implementation of TPS, an integral part of the preparation and workplan is the examination of the Acceptance Sample universe time frames and required identification dates to determine whether each universe is to be identified by the "build as you go", or the "identify after the fact" method (see Appendix A).

The workplan should ensure that all required review steps are anticipated, that data processing is in simultaneous progression, that the SESA tax staff know when to expect review activities, and that all parties know whether the review is on schedule.

The contact person for each tax function should be informed of progress and findings so that no misunderstandings arise, and be made aware of any problem areas in the units as soon as possible.

The reviewer will submit a workplan for each upcoming year to the RO. The RO will require progress reports to ensure that projected work is being completed on schedule, to the extent possible, and that the TPS Annual Report will be completed on time.

(Figure II-3 displays anticipated scheduling of Acceptance Sampling.)

Figure II - 3
SAMPLING SCHEDULING

| FUNCTION	YEAR1				YEAR2		
	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR
	JAN FEB MAR	APR MAY JUN	JUL AUG SEP	OCT NOV DEC	JAN FEB MAR	APR MAY JUN	JUL AUG SEP
STATUS					✳ NEW, SUCCESSOR & INACTIVE	✳ CONCLUDE YEAR 1 REVIEW	
CASHIERING			✳				
REPORT DELINQUENCY (1)				✳			
COLLECTIONS		SNAPSHOT	✳				
FIELD AUDIT				✳			
CONTRIBUTION REPORT	SNAPSHOT	✳					
DEBITS/BILLS (1)		✳					
CREDITS/REFUNDS (1)		✳					
BENEFIT CHARGING (1)		✳					
TAX RATES				✳			

BUILD UNIVERSE ▬▬▬
PULL SAMPLE ✳
CONDUCT REVIEW ▬ ▬ ▬

(1) This chart depicts the earliest schedule possible, some samples allow for options in schedule. Please refer to narrative chart on the following pages for options available and other clarification.

GENERAL PROCEDURES	SYSTEMS REVIEWS AND SURVEYS

II. CONDUCT SYSTEMS REVIEWS AND SURVEYS
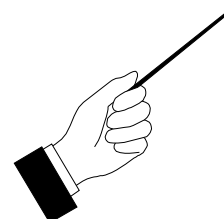
a. Begin Systems Review

The Systems Review is an organized assessment of SESA's internal controls or quality assurance systems. The presence of these controls should ensure that SESA's UI revenue transactions are processed accurately.

- A system of "**internal controls**" is typically based on methods and policies designed to prevent fraud, minimize errors, promote operational efficiency, and achieve compliance with established policies.

- A "**quality assurance review**" system is a periodic review, generally conducted at a point in the process where errors are likely to occur. The review may be performed by an individual or team within or outside the unit, to measure the performance of a function and make recommendations for improvements where warranted.

The internal controls included in the Core TPS Systems Review are based on the standards set for auditing which were published by the General Accounting Office (Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 - Accounting, Appendix II, Standards for Internal Controls in the Federal Government.). In each chapter of this handbook, internal controls will be modified as they relate to each particular tax function. Universal criteria are described below with added clarification.

SESAs should have the following types of internal controls:

! Recorded Information and Instructions

! Training Systems

! Recording of Transactions and Events

! Execution by Authorized Individuals

! Systems to Assure Execution of Events

! Review of Completed Work

Recorded
Instructions

The SESA establishes requirements, rules, and procedures to implement laws and regulations. Information about systems and procedures which guide how work is to be performed should be clearly documented and readily available for examination. Recorded information and instructions should be sufficient or complete enough to ensure that personnel can learn and understand their jobs and perform their duties properly. Instructions should also be up-to-date, reflecting current procedures or laws

Recorded information may include manuals, handbooks, desk aids, computer help screens, training guides, <u>organized</u> collections of procedures or policies, or other readily accessible instructions which can help staff do their work correctly. Instructions will normally include both general information such as compilations of relevant laws and regulations, as well as detailed instructions for carrying out individual jobs in the agency. This means that reviewers may need to look in many places to examine all relevant instructions.

GENERAL PROCEDURES   **SYSTEMS REVIEWS AND SURVEYS**

Training Systems
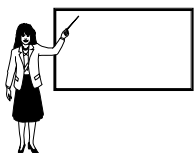
Managers and employees responsible for key decisions should possess and maintain a level of expertise which enables them to accomplish their assigned duties. Training systems should be sufficient to ensure that personnel understand and perform their duties properly. (New employees should have some form of training, and experienced employees also benefit from refresher courses.)

When reviewing training systems, reviewers must look for formal training procedures (e.g., the training is conducted using an established schedule and using set guidelines to make judgements about the quality of work being produced). There should be procedures for identifying general and specific training needs and for delivering training as needed.

Recording of

Transactions and
Events
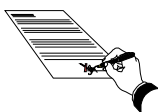
Transactions and other significant events are to be recorded and properly classified. The entire life cycle of a transaction or event should be promptly recorded. This includes recording the action which initiated the transaction(s), recording the transaction(s) that took place and recording the end result.

Reviewers will determine whether SESA audit trail requirements provide for the classification and prompt recording of all significant events. The reviewer will also need to determine whether records are readily available to be used as needed for agency operation and management review.

Execution by
Authorized
Individuals

Transactions and other significant events are to be executed
only by persons acting within the scope of their authority. Only
authorized individuals have access to and accountability for
resources such as employer remittances.

Reviewers will determine whether SESA requirements provide for
the execution of significant events by only authorized individuals.

Systems to Assure
Execution of Events

Systems and controls such as monitoring procedures, exception
identifications, checks and balances, reconciliations and
edits should   be routine in operational procedures.
Automated or manual exercise   of these controls as an
integral part of program operations assures   accurate and
timely execution of transactions and events.

Reviewers should determine if such program management systems
have been built into the SESA revenue operation.

Review of
Completed Work
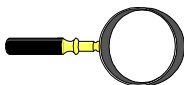
Qualified and continuous review is to be provided to ensure
that objectives which are material to the proper payments of tax
are achieved. The following tasks are involved:

.   systematic review of assigned work on a regular,
     ongoing basis.

.   systematic review to determine whether systems and
     procedures are working as intended.

Review of completed work can take many forms. It may be traditional supervision where a manager reviews and approves the work outputs of immediate subordinates. For some functions, such as cashiering, supervisory review may take the form of checking to assure that reconciliations are being performed. Other agencies may use peer review or quality assurance techniques where representative samples of the work of a tax unit are periodically reviewed, and based on the review, new procedures, training or assignments are implemented to improve quality.

Not all tax functions are similarly affected by each internal control. Completing the TPS Systems Review questions for some internal controls like Recorded Information and Instructions, and Training may be repetitive in SESAs where the same people (e.g., Technical Support Services or Training Section) provide different training for various units; or where there is only one manual, handbook, etc. for the entire tax operation.

Most of the questions in the Systems Review guide are **evaluative**. If the reviewer can not confirm that a particular control exists and that no other compensating control exists, a weakness is presumed to exist in the system and the SESA is judged to be at "risk". Some Systems Review questions are **non-evaluative** and for informational purposes only. Lack of these controls does not put SESA at risk. These informational questions, identified by an asterisk (*****), are planned to be used to provide technical assistance for SESAs in their various tax functions.

While it is important to identify areas of strengths and weaknesses for program improvement - **the final evaluation is based on the Acceptance Sample findings, <u>not</u> the Systems Review**. The design of Program Review focuses on the downstream effect -if there is no material effect on current or future payment of UI tax (as evidenced by the sample results), then the SESA has reasonable assurance of a quality tax operation.

b. Gather Information

The Systems Review is directed and organized by a set of fact finding questions and narratives. They are not intended to be "interview instruments" where the contents of a dialogue between the reviewer and SESA staff are simply recorded. Rather, the questions and narratives should serve as a vehicle for reviewers to record and **verify** information from many sources about the systems and controls SESAs have installed to assure accuracy and timeliness in their tax operations. The reviewer will use and probe as many sources as necessary to come to conclusions as to the proper answer to each question.

A typical Systems Review will require the reviewer to gather information from three sources:

- Examinations of manuals, handbooks, laws and other documentation

- Interviews with State staff

- Direct observation

The reviewer will need to use all of these sources to complete the Systems Review, and in most cases will need to go back and forth between the sources to fill in gaps. For example, a reviewer may have an idea of the responsibilities of an individual staff member based upon a review of the desk procedures for the person's job. Later, when interviewing the person the reviewer may hear a different description of the responsibilities. By returning to the documentation the reviewer can clarify the answers to the questions and identify additional questions which need to be asked to avoid any confusion.

GENERAL PROCEDURES   **SYSTEMS REVIEWS AND SURVEYS**

- Examination of Documentation. The least intrusive means of data collection is review of documentation. By examining materials describing agency practices the reviewer can obtain preliminary answers to Systems Review questions without bothering agency staff or interrupting their work. More importantly, when it does come time to interview staff, the reviewer will get more accurate answers if he or she is credible.

  The reviewer must be knowledgeable about both the TPS process and agency procedures to assure the respondents that their time is not being wasted. Review of documentation will help the reviewer become familiar with agency procedures and terminology.

- Interviewing Staff. A major source of information for the Systems Review and Methods Surveys will be discussions with SESA staff who are familiar with the tax function being reviewed.

  While the questions in this handbook are a start, they should not be the end. The reviewers will need to ask additional questions to be sure they fully understand the responses. They also need, in most instances, to speak with several staff persons to get full answers to all questions. Additionally, they may need to come back to some questions later if they cannot verify the response by examining documentation or by directly observing the system at work.

- Direct Observation. The review of documentation and interviews with staff will leave the reviewer with an understanding of the way systems "are supposed to" operate, or the way administrators think they are operating. It is the reviewers' responsibility to assure themselves, through direct observation, that the systems actually operate that way. Any number of methods exist to observe a process, including: (1) reviewing reports, calculator tapes and other evidence of a procedure, (2) observing a process on-site, or (3) checking for the presence of a procedure while reviewing the Acceptance Sample.

GENERAL PROCEDURES	SYSTEMS REVIEWS AND SURVEYS

All Systems Review guides begin with a form to list people and documents that have been reviewed (Interview Sheet). This list is to be kept up to date as the review proceeds. The list will help other reviewers in subsequent years in conducting their review by serving as a recorded register of information sources used in support of the review effort. (It should be part of the TPS workpapers, but does not have to be submitted with the Annual Report.)

c. Verify the Information Obtained

The reviewer is expected to document the evidence obtained to support each "Yes" answer in the Systems Review checklist. Informational questions (marked with an asterisk) and Methods Survey questions do not require any verification since they are not evaluative. This evidence will be recorded for each question or clusters of related Systems Review questions as the "Verification Source", often noted on the forms simply as VS. **The Verification Source should be the most direct evidence to support the answer recorded. Only when no other source is available will the verification source be solely the response from an interview.**

In completing the Systems Review, verification of some answers may only be possible after examining a sample of outputs or after completion of the Acceptance Sample (e.g., to answer whether certain actions taken by field audit staff are being documented in their audits). The Systems Review will be in final form only after completion of Acceptance Sampling. Following are several examples of appropriate review activities and verification sources for specific areas of inquiry:

Question: Does the SESA have recorded information and instructions to assist employees performing Status functions in each category in accordance with State laws and written policies?

Review Activities: Read the manual, handbook, or procedures that were assigned to employee; interview staff to confirm use, etc.

Verification Source: Record the precise name and section or page number of documents containing information and instructions for making status determinations.

GENERAL PROCEDURES	SYSTEMS REVIEWS AND SURVEYS

Question: Does the SESA use Employer account number edits (e.g., hash totals, check digits) to assure accurate processing of employer contribution reports?

 Review Activities: Read recorded instructions; interview staff to confirm or modify knowledge of how system works; and observe computer edits while in process for inputting reports or review system rejects.

 Verification Source: Record the procedure or evidence observed (e.g., observing actual inputting of contribution reports using hash totals or check digits, or checking system edit rejects).

Question: Is there a systematic review of the accuracy of new employer status determinations? If yes, what type of review? (e.g., supervisory, peer, quality review, etc.)

 Review Activities: Review procedural manual; interview supervisor and employees; and use Acceptance Sample to look for initials on forms or other evidence that supervisory review occurred. If Quality Review (QR) System is said to exist, review the procedures, interview QR supervisor and employees, and examine the evidence that review occurred or observe actual test run in process.

 Verification Source: Record the procedure or evidence observed (e.g., supervisor's initials on forms, or observation of actual Quality Review in process).

Question: Does the SESA have a means to assure prompt deposit of checks that must be removed from normal processing (suspense account/exception file) due to problems (i.e., reports received from new employers whose liability has not yet been determined, or reports with no employer account number, etc.)?

Verification Test: Review procedures SESA uses and select several employer remittance items at random with unidentified employer account numbers from their suspense account or exception file at beginning of the quarter, and at end of quarter check to see what disposition has been made of items selected for the sample.

Verification Source: Record suspense account procedures used by the SESA and note the findings of the verification test conducted.

Verification Sources should be listed in detail for each question. If a particular control or quality assurance measure can not be verified (and no compensating control can be identified), the answer to that Systems Review question will be "No", and the reviewer will have identified a "risk" in that tax function. It should be clearly noted on the Systems Review coding sheet and referenced in the comments of the Annual Report.

GENERAL PROCEDURES	SYSTEMS REVIEWS AND SURVEYS

d. Complete the Systems Review Forms

For each tax function, System Review and/or Survey forms are provided in this handbook. They consist of the review form, coding sheets, and narratives. Several common features of the forms are described below.

- Review Form. Most questions on the form are answered either Yes or No; however, some questions request a particular number or a percentage. The reviewer should record the correct answer to each question based upon review of all sources of information.

    Some questions on the form provide for "A" (Not Applicable), which should be used **only** when appropriate. An example of using an "A" could be the answer to a Review question in Account Maintenance which states, "Does the SESA apply a tolerance level for differences between amount due and amount received?", when the SESA does not use a tolerance level for such discrepancies.

    Some questions ask the reviewer to explain or describe something. Space is provided to write answers out in their entirety.

    Questions marked with an asterisk (*) are for information only and are non-evaluative. (**NOTE: a portion of a question may be asterisked, but other, sub components of the same question such as "a.","b.","c.", etc. may not be asterisked. In such a circumstance, only the asterisked portion is non evaluative.**) Methods Survey questions, and informational questions in the Systems Review are not evaluative and do not require verification or explanation of "No" responses.

- Coding Sheet. Data entry procedures described in a separate handbook.

- Narratives. The System Review forms provide a narrative section following each set of internal control questions to explain any "No",

  "NA" or "Other" responses or exceptions that the reviewer thinks warrant further details. *Should there have been a Compensating Control that has been identified, verified, and authorized by the Regional staff as an appropriate control, it must also be described here.*

  Additional space at the end of each tax function's Systems Review is provided to describe any exemplary procedures or practices used in a particular tax function. *If additional controls were identified beyond those mentioned in the TPS review, they are to be described as well, and this form is to be sent to the Regional Office who will transmit it to the National Office at the end of the Program Review as technical assistance.*

GENERAL PROCEDURES	SYSTEMS REVIEWS AND SURVEYS

e. Complete the Program Review Chart (preliminary)

The Program Review Chart serves to compile the results of the Systems Reviews and Acceptance Sampling. Upon completion of the Systems Review, enter the preliminary findings on the Program Review Chart (Figure II-4). There are three possible entries for the Systems Review findings - the SESA's system of internal controls could be: (C) Complete, (R) Risk identified, or (O) Other Compensating Control identified. (Note: Later, after completion of the Acceptance Sampling, if any case has been found to be unacceptable, yet the System review was coded as "Complete", the reviewer may need to review the systems again to resolve the inconsistency between the Systems Review and the Acceptance Sample findings. Such additional review may yield some revisions to the Program Review Chart to identify the particular systemic weakness which caused the case to fail.)

Complete   For each tax function, record "C" if all internal controls and quality assurance systems listed in the Systems Review were in place. This means that all evaluative questions were verified (VS) and answered "Yes", except for questions marked "Other"; and questions which are marked with an asterisk (because they are non-evaluative).

Risk   If any "No" answers appear in the Systems Reviews, it identifies a potential risk or weakness in that area of SESA controls. The reviewer must enter an "R" to signal the area of risk. The actual significance of the problem may not be evident until a sample of outputs is examined during the Acceptance Sampling phase of review. If any sample cases are coded as having "failed", the reviewer can quickly scan the Program Review Chart for the presence of an "R" to see what may have caused the problem.

Other   If a "No" answer is entered for a particular control, but the SESA has an "Other" control thought to compensate for this weakness or risk, the reviewer must examine the control, verify its existence (VS), and describe it in the spaces provided. *Regional staff must agree that the control adequately substitutes for the missing control. (Acceptance Sampling results should aid in this decision.)*

An example for using "other" might be a State which does not reconcile total benefits charged with benefits paid to ensure accuracy of their charges. Normally, this would result in a "Risk" in their system of internal controls. However, a legitimate compensating control could be the SESA's system of sampling each potential charge allocation scenario on a random basis to confirm accuracy. TPS's Acceptance Sampling would confirm the effectiveness of the SESA's control and no "risk" would be assigned. An "O" is to be entered after the final judgement is made by the Regional Office that this Compensating Control is adequate.

SESA NAME: _____

REVIEW PERIOD: _____

Figure II-4
PROGRAM REVIEW FINDINGS

Function		Systems Review Verified Controls for:						Acceptance Sample Confirmed:
		Recorded Instructions	Training	Recording of Events	Execution by Authorized Individuals	Execution of Events	Review of Completed Work	Accuracy of Output and Effectiveness of Controls?
STATUS DETERMINATION								
New	Determination							
New	Posting							
Successor	Determination							
Successor	Posting							
Inact/Term.	Determination							
Inact/Term.	Posting							
CASHIERING								
REPORT DELINQUENCY								
COLLECTIONS								
FIELD AUDIT								
ACCOUNT MAINTENANCE								
Contribution Report Processing								
Employer Debits/Billings								Cont.
Employer Debits/Billings								Reim.
Employer Credits/Refunds								
Employer Charging								
Employer Tax Rates								

LEGEND: Systems Review   C = All controls verified as present
R = 1 or more controls missing
O = Other control was identified which compensated for missing control (requires Regional approval)
Acceptance Samples   Y = Two or fewer sample cases failed, confirming accuracy of outputs and effectiveness of controls
N = Three or more sample cases were not accurate and did not validate effectiveness of controls

III. ACCEPTANCE SAMPLING

a. Select Samples

Acceptance Samples are not meant to stand alone. They are to be the means of confirming the performance of a system whose internal controls have already been assessed by a Systems Review. If risks have been identified in the Systems Review, the samples will likely verify that system outputs fail to meet minimum levels of accuracy or completeness. If a system is deemed to be risk-free, samples of outputs should confirm this fact. For these purposes, it is not necessary to draw large samples for estimating the defect or error rate. Large samples are costly and time consuming. Since the purpose of the samples in the TPS Program Review is to verify a level of performance, much smaller samples can be used.

Once the System Review is complete, draw a sample of 60 cases from each tax function to confirm that system outputs meet minimum levels of accuracy or completeness (e.g., status determinations are accurate, all appropriate actions are being taken to resolve delinquent reports, and field audits meet ESM requirements).

The desired accuracy/completeness level is at 98% - that is, 98% of the SESA's status determinations should be accurate. For a status unit operating with an underlying accuracy level of 98%, there is an 88% chance that two or fewer errors will be discovered in a sample of 60 status determinations. As the tax function's underlying accuracy level increases, there is a proportional increase in the chances of passing. Conversely, as the tax function's accuracy level decreases, the more cases in the sample are likely to fail.

The failure of three or more cases is reason to conclude that the exception rate for that function is at an unacceptable level. As the graph below shows, tax functions with accuracy levels below 98% still have a chance to pass sample review, but the probability of passing rapidly decreases as the underlying accuracy level decreases. For instance, if the underlying error is 9%, there is only a 8% chance of passing the sample.

Probability of Acceptance Sample Passing
Sample Size=60 Allowable Errors=2
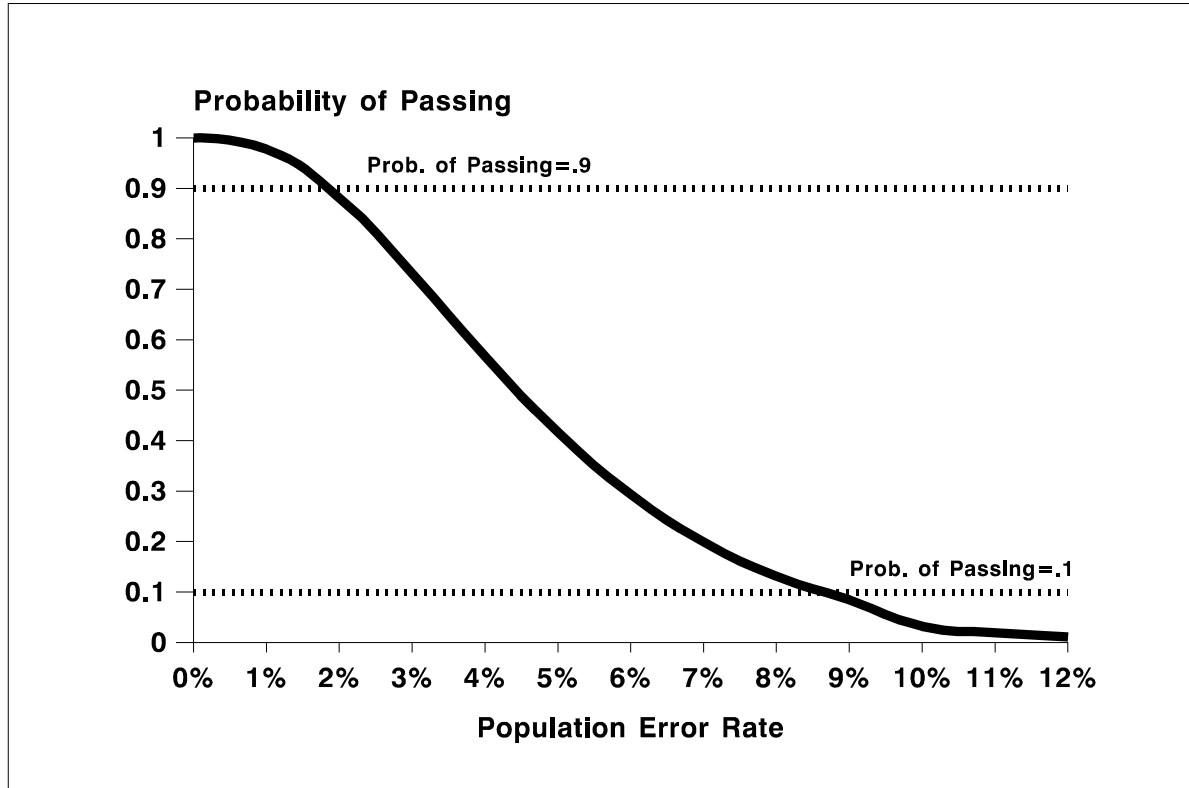
b. Case Non Use or Case Replacement.

There are two instances where cases may not be used, or case replacement may be
necessary.

> 1. The particular case selected should **not** have been in the universe to be
> sampled. Note that this should not occur if, when developing sampling
> systems, the universe files were properly reviewed. There may be instances
> when the universe was not assembled correctly. For example, when building
> the universe of Collection cases, an account receivable which had less than
> $100.00 unpaid UI tax due, could be inadvertently included. (The universe
> should consist of $100., or more in unpaid tax).

However, it is important to have some evaluation of each tax function if at all possible. If cases that should not be in the universe are selected, do not replace them, instead, continue extracting samples. As long as the sample contains a minimum of 53 valid cases (i.e., cases that meet the universe definition), two cases can still fail and the results of the Acceptance Sample will remain consistent with that of 60 case samples.

If the sample size drops below 53, the tax function can not be evaluated.

The DP section should be alerted in order to make modifications for future sampling efforts. **The reviewer must then advise the Regional Office to ensure that future universes will be sound. Note must also be made in the Annual Report of this problem as well as steps to rectify it.**

2. The particular case selected cannot be reviewed due to a missing case folder, or other documentation is missing, such as the microfiche or image of source documents.

Sometimes documents cannot be found in order to make a ruling on the case's accuracy. Records may have been destroyed through circumstances beyond control of the SESA (e.g. fire, flood etc.). The documents may be misfiled or "checked out" to some other staff member and cannot be found. **IN INSTANCES OF THIS TYPE REPLACEMENT IS ALLOWED FOR ONE AND ONLY ONE LOST CASE**.

Before replacement the reviewer must:

- Assure themselves (as far as possible) that the work on the case was actually done, and

- Make every effort to find the information. Check all possible places/persons where the information could be located.

If a SECOND case in the sample is missing then the SESA CANNOT reach a conclusion that there is reasonable assurance of accuracy. Results should be coded as a "No" on the Reasonable Assurance Chart for the Acceptance Sample findings. Further details on the finding can be explained in the Annual Report.

For further details, consult Appendix A of this handbook.

c. Review Samples

Once the sample is selected, each case in it must be reviewed, using the appropriate sample questionnaire. Each questionnaire contains a series of questions which must be answered for each case to determine whether it is correct.

One of the more difficult aspects of rating the cases involves deciding whether or not a given case is acceptable. For some transactions, the decision is relatively simple. For example, if a given employer contribution was not credited to the proper account in the right amount, then the transaction is not acceptable. However, Status Determinations, Collections, and Field Audits have many more elements in them. Some of those elements may be incomplete or inaccurate without materially affecting the accuracy of the outcome. In each function, every effort has been made to identify the essential elements for analysis and to exclude unnecessary elements.

Any question that the reviewer and SESA has about materiality of an element should be resolved with Regional staff as per the earlier <u>Planning for Reviews</u> section.

Note that if a sample case uncovers that something was done in error, but that the error was subsequently discovered and rectified due to the SESA's internal controls, the case would not fail. If, however, the error is rectified due to the employer bringing it to the SESA's attention, the case fails.

<u>Appeals</u>   When a case appearing in the sample is under appeal, the review procedure should not be affected when the reason or basis for an appeal or its outcome is not germane to the purposes of the review. However, the appeal is a structured legal proceeding. The reviewer should determine if the agency has followed established procedure up to the point at which the case is being reviewed.

d. Complete the Acceptance Sample Coding Sheet
The answers to the Acceptance Sample Questionnaire questions should be recorded on the coding sheet for the respective function. The coding sheet allows space to record an answer for each question on the questionnaire. Most questions are coded Yes or No; however, some questions on the form provide for "I" (Information Not Available) or "A" (Not Applicable) which should be used **<u>only</u>** when appropriate.

GENERAL PROCEDURES	ACCEPTANCE SAMPLING

<u>Information</u>
<u>Not</u>
<u>Available</u>
There may be instances when information is not available. For example: There is a question for the Collections sample which asks, "Were telephone contacts made...for the most recent quarter of liability?". It cannot be answered "yes" if no evidence can be located in the employer file to confirm a specific telephone call. However, if a letter referencing a previous phone call is found the TPS reviewer may draw the conclusion that such a phone call had probably been made. Under such circumstances "I" would be the appropriate answer. If no evidence exists that a phone call was made, yet SESA procedure requires one be made, then the answer to this question would be "No". This is a judgement call on the part of the reviewer, based on the information at hand and an understanding of the SESA's particular policy regarding collections procedures.

<u>Not</u>
<u>Applicable</u>
Acceptance Sample questions are to be answered "A" only when appropriate. This means that an "A" response is acceptable only if the SESA does not utilize that process in their tax operations.. *Regional Office approval would be sought and this question would no longer be asked of the SESA*.

The second instance when an "A" response would be acceptable is when the process being reviewed was unnecessary in the case being examined. In the Collection chapter a question is asked, "Did SESA procedures require enforcement actions be taken to collect?" An example when "A" would be appropriate is if the money was received after a couple of calls and further enforcement action was unnecessary.

When all cases have been reviewed, the total number of acceptable cases should be entered at the bottom of the coding sheet.

An Acceptance Sample Explanation Sheet has been included in each chapter. Any sample case that fails should be identified, and the potential responsibility for its failure should be noted. This will assist reviewers later when they attempt to correlate systemic weaknesses with resultant inaccuracies in various tax functions' output.

e. Prepare Preliminary Findings and Meet with SESA Staff
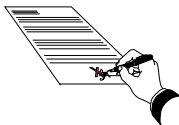
At the conclusion of the Systems Reviews and Acceptance Sampling, the reviewer should complete the Reasonable Assurance Chart and draw conclusions as to whether the SESA has accuracy in all of the functions examined. (Soon after each review is finished tax managers should also be made aware of any problems that may have been found so they can clarify any misunderstandings or begin to consider potential program improvement strategies.)

Systems Reviews and Acceptance Sampling results are complementary. There are four possible outcomes after both procedures have been conducted: If no risk was found in the review of SESA controls, passing Acceptance Sampling is a **consistent** outcome. So is the situation of having identified risks in the SESA's internal controls and having failed sampling. However, findings of risk coupled with passing sampling; and findings no risk and failing sampling are **inconsistent** and require analysis and explanation.

　　　　SYSTEMS REVIEW　　　　　　　　ACCEPTANCE SAMPLE

　　　No Risk Found　　　　　　　　　Pass (consistency)　　　Fail (inconsistency)

　　　　Risk Found　　　　　　　Pass (inconsistency)　　Fail (consistency)

The reviewer must take whatever steps are necessary to make the findings from the Systems Review and the Acceptance Sampling Review rational and consistent. For both inconsistent outcomes, additional analysis will be necessary to resolve the findings or provide an explanation for the inconsistency. Only then is the reviewer finished with preliminary findings.

FRAMEWORK FOR PROGRAM REVIEW ANALYSIS

SYSTEMS REVIEW   ACCEPTANCE SAMPLE
FINDING   FINDING

No Risk Found   **Acceptance Sample Passes**

Finding: the tax function's controls are in place and producing high quality outputs.

No Risk Found   **Acceptance Sample Fails**

Further Work: Re-examine the failed cases to confirm that they should have been judged as having failed. Examine the cause of sample failure, determine if it had simply been due to a rare case of human error and whether another sample case should be pulled.

Re-examine Systems Review findings. Are there any controls that should have been deemed at risk? If controls are proper, are they being executed by staff - is there a defect in the control's design? - Were the controls verified to be in place? Consider drawing second sample to confirm or refute findings, or drawing an expanded sample to produce a specific error level.

Finding: The tax function's controls are at risk and allowing inaccurate or incomplete outputs.

OR

Expanded sampling indicates that the tax function's controls are in place and producing quality outputs.

GENERAL PROCEDURES	ACCEPTANCE SAMPLING

Risk Found   **Acceptance Sample Passes**

Further Work: re-examine area at risk to determine whether 1) there is significant risk; or 2) the existing controls are strong enough to produce quality outputs; or 3) compensating controls have been overlooked; or 4) there are off-setting factors (still considered a risk by TPS) such as long-time competent employees in place.

Consider selecting another sample to confirm that the outputs are truly accurate. the sample design is such at there is a change of passing (2 or fewer errors in a sample of 60) even though there is an underlying error rate of 8.6% - this may be such a situation.

Finding: The tax function's controls are in place/or have offsetting factors/or are strong enough to produce accurate outputs. Produce recommendations for improving any controls.

<div align="center">OR</div>

Additional sampling has produce failed cases - confirming that the tax function's controls are at risk and allowing inaccurate outputs.

Risk Found   **Acceptance Sample Fails**

Further Work: Analyze the cause and effect relationship of risk to failure. Consider drawing an expanded sample to estimate a true error rate. Develop recommendations for improvement.

Finding: The tax function's controls are at risk and allowing inaccurate outputs.

As always, it is important that SESA staff be integrally involved in the review process. Therefore, the reviewer should meet at this point with the appropriate SESA decision-maker (e.g., UI Director and/or Tax Director) to discuss the preliminary findings. At the meeting the reviewer should briefly remind the SESA staff of the objectives and sub-objectives being analyzed. All findings should be discussed, the cause and impact of any problems should be presented, and means of addressing the problems should be considered.

The reviewer should also have examined the findings from Computed Measures, and have completed the Surveys before meeting with SESA staff. (Though the Surveys do not technically collect information which will be used in making judgments on reasonable assurance of quality, they are informational sources which can help the reviewer understand the SESA Tax operation.)

If the SESA decision maker agrees with the findings the reviewer may proceed with the preparation of a written "draft" Annual Report. If the SESA decision maker does not agree with the findings, the reviewer will need to gather additional information. The reviewer may choose at this point to return to parts of the Systems Review. For example, the SESA staff might indicate that the reviewer has misunderstood something which was reviewed, or that additional information is available from a source which the reviewer did not use. The reviewer can repeat segments of the Systems Review to revise the findings or to confirm that the findings are correct.

The SESA may elect to draw a second Acceptance Sample to confirm or deny the initial findings. Only two Acceptance Samples may be selected for each function.

If the SESA does not agree with the findings from the second Acceptance Sample, the next required step in the Program Review process becomes Expanded Sampling.

f. Select and Examine Expanded Samples

The purpose of expanded sampling in TPS is to support the findings of the review of internal controls, quality assurance systems and the acceptance or procedure review samples. Expanded sampling is not necessary when the SESA concurs with the findings. If, however, the SESA does not agree, then an expanded sample is necessary to estimate the potential impact of the weakness on program quality. Even when the SESA might agree with a finding, the reviewer has the option to select an expanded sample when there is uncertainty about the nature of findings and more detailed information is desired.

Expanded samples will be used to assess the extent of the problems identified by acceptance sampling. They will need to be large enough to develop precise estimates of the error rate. The SESA and TPS reviewer also may choose to use expanded sampling to identify the nature and cause of errors found during acceptance sampling. When used for these purposes it may be appropriate to draw the expanded sample only from a particular type of transaction.

As the name implies, an expanded sample is an expansion of the acceptance sample. Therefore, expanded sampling follows the same steps and the preparation conducted for the acceptance sampling review can be used directly in conducting the expanded sampling.

The steps are:

> 1) determine the sample size
>
> 2) identify the transaction types and time periods
>
> 3) select the sample
>
> 4) review the sample, using the questionnaire for the function.

The steps are described in detail in Appendix A of this handbook.

g. Sampling by Exception

The TPS Program Review examines the routine processing of work in each major tax function by extracting samples of work products. By examining small samples of the majority of the SESA's work, assessment is made on the quality of the overall tax operation. However, some SESAs may also be concerned about potential problems outside the routine flow of work. Areas that are more error-prone may warrant special attention:

- Contribution reports processed outside the normal flow

- Employer remittances received outside the cashiering unit

- Employer charge statements with credits which involve claimants with overpayments and/or monetary redeterminations.

These areas have not been included in the basic TPS design even though they are much more likely to result in error, because they only represent a small proportion of the tax operation's output.

If the SESA wishes to examine such exceptions, they may design an Acceptance Sample for these error-prone cases, or they may contact the Regional Office for assistance. *Regional staff may have knowledge of similar sampling processes used by other SESAs, or the National Office may have a design that would be applicable. (E.g., a Benefit Charging study was conducted by the National Office in 1991 which assessed the accuracy of employer charge statements. The sampling design used for the study might be applicable to a SESA concerned about this specific area in their tax operation.)*

The SESA may also want or need more information about a risk which the Systems Review identifies or a problem which reoccurs in Acceptance Sample cases. In these instances SESAs may design a "special study" for informational purposes. Such a study may involve designing special questions and selecting a sample where the questions may be used to gather information or, in the case of an expanded sample, to determine the error rate.   *SESAs should contact their Regional Office for additional information regarding exception sampling*.

IV. CONCLUDING REVIEW

a. Assess Computed Measures' Findings

Program Reviews are intended mainly to assess reasonable assurance of accuracy in the tax operation. Computed Measures provide indicators of end-product timeliness and completeness. An assessment of a tax operation must weigh all these factors (i.e., timeliness and accuracy are both important in the Status operation - however, timeliness of determinations should not be at the cost of accuracy. An acceptable balance must be sought). Computed measures will be generated based on data derived from routine SESA reports.

TPS will develop analytical reports which display trends over time within a SESA and among SESAs. These reports will be provided to the reviewer and should be examined by the TPS reviewer along with the findings from Program Reviews and Methods Surveys to develop a comprehensive evaluation of the SESA's tax operation.

Refer to Appendix B for data processing instructions for Computed Measures.

b. Complete the Program Review Chart

Before completing the Annual Report, reviewers need to complete the Program Review Chart. The purpose of the chart is to:

- Summarize the results of the Acceptance Sampling relative to which functions have reasonable assurance of accuracy,

- Record how individual portions of the System Reviews contribute to reasonable assurance of quality.

Reviewers should fill in every cell on the Chart which is not shaded. The allowable entries are described.

COMPLETION OF THE PROGRAM REVIEW CHART

Systems Review

ENTRY	MEANING
C (Complete)	All internal controls were verified as being in place and operating
R (Risk)	One or more controls were missing or not verified (One or more "No" answers to evaluative questions)
O (Other)	Another, "compensating control" was verified as being in place and operating (Regional approval required)

Acceptance Sampling

ENTRY	MEANING
Y (Pass)	Fewer than 3 cases failed sampling (internal controls are effective in producing quality outputs)
N (Fail)	Three or more cases failed sampling review (internal controls are not effective in producing quality outputs)

<div align="center">**or**</div>

Two or more cases were missing (insufficient documentation to rule on quality of outputs)

At this point the data from the Systems Reviews and Acceptance Sampling should be consistent, in which case judgments are reasonably straight forward. When/if there is inconsistency between findings from the two sources and it's impossible to resolve them, the overall determination of the tax function's quality is to be based on the findings of the Acceptance Sample (or Expanded Sample if one was used). Inconsistencies should be noted in the Annual Report.

The Program Review Chart should be attached to the Annual Report. *Any Regional comments such as those dealing with compensating controls or approval of "A" categories in Acceptance Sampling should also be included.*

c. Prepare Draft TPS Report
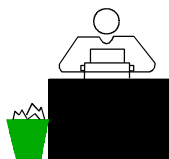
Upon completion of all portions of the review, the reviewer will prepare a draft report of the findings. The report should follow the structure of the TPS Report (example provided in Appendix D) with the exception of the section on State response, which is not completed at this time.

The draft report is to include information from Systems Reviews, Acceptance Sampling, Expanded Sampling (as necessary), and Computed Measures. It is meant to convey in narrative form the areas of strengths and weaknesses in the SESA tax operation. The TPS Report should simply and clearly inform SESA Administrators and Regional representatives of the areas of concern, exemplary practices and program improvements.

The report should be organized under the following topics:

Purpose   A brief statement of the purpose of the report and the date the review was completed.

Summary of   The purpose of this part of the report is to provide a synopsis of
Findings   what was found, recommendations, and exemplary practices.   (The
                    remainder of this report goes into greater depth on how the data was
                    gathered, sources, cause, effects, and more detailed recommendations.)

Objectives   Explain what was reviewed and the methodologies used.

Principal   Provide a detailed analysis of overall findings, identifying the tax
Findings   functions that failed Acceptance Sampling, and areas identified as
                    needing improvement.

                    For each tax function indicate:

                    •   If any cases failed, the number, and why they failed.

                    •   The risks identified during the Systems Review and where they were
                        found.

                    •   List any compensating controls found to exist. (Attach Regional
                        approval of the ability of such controls to substitute for TPS-listed
                        controls)

                    •   List any controls that were said to be in place but could not be verified
                        (VS).

                    •   Correlate any Acceptance Sample failures with risk found in the
                        Systems Review, or explain any inconsistencies (e.g., risks but pass,
                        no risks but fail)

                    •   If computed measures data is provided for the function, examine the
                        trends they reveal, and if appropriate, correlate them with Program
                        Review findings.

- Make recommendations - if appropriate, discuss possible solutions with the individual responsible for the tax function being reviewed. Consider utilizing information from the compilation of SESA Methods Survey. Consult with the Regional representative.

<u>Exemplary</u>   Mention practices that are positive which could be used by other units
<u>Practices</u>   within the SESA or other SESAs. Bring to Region's attention.

<u>Global/Systemic</u>   Mention any overall trends where risks are found or areas of concern
<u>Trends</u>   were noted. If systemic strengths are noted throughout the various
reviews,   they should be elaborated on in this area of the report.

As the reviewer analyzes TPS findings, potential recommendations should be developed. Input could be sought from those most directly involved with the tax functions at the State and Regional levels. Another excellent source of potential recommendations is the compilation of the Methods Surveys of other SESAs. After reviewing the compilation, the reviewer can contact the Region who will facilitate the information exchange between the SESAs who reported methods that could be explored for application to the reviewer's SESA.

In most instances, the reviewer will need to modify the methods used by the other SESA to be appropriate to the home state. For example, the reviewer identified a significant risk in the timely filing of tax lien which results in an adverse impact on its collection of accounts receivable. The reviewer identifies other SESAs whose computed measures show they are doing well in resolving accounts receivable and who appear to be similar to the reviewer's SESA in size, economic conditions, and predominant type of employer. Information exchange, subsequent discussion, and modification of the other SESA's methods to accommodate the reviewer's SESA's circumstances, can lead to a better way of ensuring liens are filed timely with a corresponding increase in resolving accounts receivable.

d. Conduct Exit Interview

At the Exit Interview the entire review team should meet with the UI Director, Tax Director and other staff designated by the SESA. The meeting will cover each section of the written report and is to be shared with the SESA. If the preliminary meeting on findings was detailed, and if no expanded sampling was done, this portion of the Exit Interview may be brief. It may simply confirm that the written document incorporates previous understandings.

The second portion of the Exit Interview will be a discussion of State activities which could be undertaken to correct problems identified or to expand the approaches which are producing high quality products.

e. Prepare the TPS Annual Report

The Report should consist of a 1- or 2-page Executive Summary which briefly describes principal findings and summarizes suggested improvements, and a more detailed section which evaluates every tax function in terms of accuracy, timeliness and completeness. It must include information from: Computed Measures, Program Reviews (i.e., Systems Reviews and Acceptance Sampling), and Expanded Sampling (if performed).

Any comments the agency wishes to make should become a part of the report. Action(s) taken and/or planned to be taken to correct any areas identified as needing improvement should also be reported.

The final evaluation of the SESA's tax operations is based on Computed Measures data and Acceptance Sample findings. the Systems Review serves to identify areas of strengths and weaknesses for program improvement. The TPS design focuses on the downstream effect - if there is no material effect on current or future payment of UI tax (as evidenced by sample findings in which all cases "pass" i.e., meet quality standards), then the SESA has reasonable assurance of a quality tax operation. For instance, when risks are identified in the Status operation, but the unit is still able to produce accurate and timely determinations, the TPS Annual Report will indicate that there are specific areas of risk (and what the recommended solutions may be), but that the SESA presently has confirmed acceptable levels of accuracy for its Status Determinations.